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Office Memorandum • UNITED STATES GOVERNMENT

TO : DIRECTOR OF TRAINING
 THRU : Chief/STD

DATE: 17 August 1954

25X1A9a FROM : [REDACTED]
 25X1A5a1 SUBJECT: [REDACTED] Study on China

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The events which have taken place in China are history. It is our interpretation of these events which is likely to be the basis for any action we recommend.

One school of thought, which could be termed the Fairbank-Lattimore school, holds, that the impingement of Communism upon China in the 1920's soon after Yuan She Kai's unsuccessful attempt to restore the monarchy, met a set of conditions which were favorable to its reception and adaption by reason of its close resemblance to the Legalistic School of Confucian ethics. In other words, China was "a natural" for Communism because of its acceptance of totalitarian rule for ages.

Another school of thought holds that the aspirations of the Chinese as expressed in Three Principles of Sun Yat-Sen, and especially the third of these principles on Livelihood, were essentially humanitarian and democratic as expressed by the Mencian School of Confucian ethics. This school looked upon Sun Yat-Sen as the George Washington of China and upon the 1911 Revolution as akin to the American Revolution. The three Principles were regarded as the Chinese Declaration of Independence, a humanitarian document, based on the rights of man. This school, which became the dominant element in the Kuomintang, was led by Chiang Kai Shek, after Sun Yat Sen's death. For a period of nine years between 1928 and 1937, it made great headway in consolidating Chinese progress around these democratic principles and China made substantial progress.

Then Japan, for reasons of domestic policy, launched the "China Incident." It was begun because Chiang Kai Shek was kidnapped by Chang Tseu Liang, Chang Tso Lin's Communist son, and forced to agree to fight Japan on pain of death. A static condition was rendered dynamic by his subsequent attack on the Japanese at the Marco Polo Bridge near Peking. The "China Incident" dragged on and led finally to our involvement in World War II. Japan attacked us because we stood between their militarists and their ambitions to create an Asiatic

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hegemony. During the war both schools buried their differences and attack^{ed} Japan as the common foe, but Chiang resisted all attempts of the Stillwell-Wallace-Lattimore-Davis-Service group to bring the Communists into his government. Both sides were fighting the Japanese overtly but each other covertly, conserving their energies for the inevitable resumption of inter-neicine strife after the war.

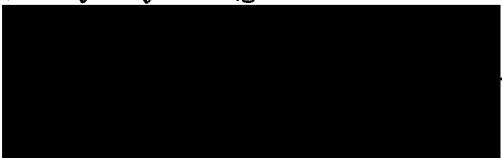
All during the war Chiang relied upon American help. It now develops that some of that help (\$500 million) which the U.S. Congress voted in 1941, was long withheld from China by the machinations of Harry Dexter White, who, as head of the Division of Monetary Research of the Treasury was entrusted with the disposition of this fund designed to prevent run-away inflation in China, a disastrous development for which Chiang and the Kuomintang Party has been severely criticized by the Lattimore-Fairbank school. As it turns out it was the red hand of Harry Dexter White that actually manipulated the inflation.

After the war in 1946, we again sought to force Chiang to accept the Communists into his government. Chiang refused and in October 1946, we ordered all U.S. assistance to Chiang to cease. The embargo lasted nine months. This meant that ammunition supplies for the large numbers of guns turned over to Chiang from the American World War II surpluses on Okinawa, were cut off at the crucial point in Chiang's fight against the Reds. This it has been contended, decided the conflict between Chiang and the Reds in favor of the Reds.

There is still some resentment particularly among the Nationalists on Formosa against this action, which is regarded as a U.S. betrayal of the Anti-Communist forces in China.

So much is history. Next month, September 1954 the question of recognition of the Communist Government in China will be a live question before the United Nations Assembly. What attitude we take as a nation may well decide the issue. The study under review adopts the view of the Legalistic school of thought. If this becomes our Government's view also, we would eventually recognize the Chinese Communists and perhaps trade with them.

This study, if published, may well be accepted by the intelligence community as reflecting our definite convictions. As such it could influence NSC and other government policy. U.S. public opinion, however, may well crystalize around those who would deny any recognition to the Chinese Communists.



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25X1A9a FROM: [REDACTED], Rm 115, [REDACTED] 25X1A6d

NO. 650 2645

DATE 17 August 1954

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3. DITR	11	8/20	8/20	MB	
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